



VILLAGE OF MORLEY
Mecosta County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Morley	County Mecosta
Audit Date March 31, 2005	Opinion Date May 11, 2005	Date Accountant Report Submitted to State: June 2, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature		Zip 48707	

VILLAGE OF MORLEY
Mecosta County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

May 11, 2005

To the Village Council
Village of Morley
Mecosta County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Morley, Mecosta County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Morley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Village of Morley, Mecosta County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF MORLEY
Mecosta County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Village of Morley covers the Village's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status has improved over the last year. Net assets at March 31, 2005, totaled \$296,738.86 for governmental activities.

Overall revenues were \$203,524.47 from governmental activities. Governmental activities had an increase in net assets of \$8,123.05.

The Village incurred one new debt of \$25,100.00 for a 1979 La France Pumper Fire Truck and equipment.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities. These include the General Fund, the Major Street Fund, the Local Street Fund, the Capital Fund, the Liquor Law Enforcement Fund, and the Metro Fund.

VILLAGE OF MORLEY
Mecosta County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: All of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, Major and Local Street Funds, Capital Fund, Liquor Law Enforcement Fund and the Metro Fund.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

We financed \$25,100.00 at 5.5% interest for a fire truck and equipment.

Our external debt for the fire truck and fire equipment is new and has 52 payments remaining at \$274.18, a balloon payment due in September of 2009 for \$14,498.02.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The most significant are employee wages and equipment rental which incurred expenses of \$95,514.90.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$25,100.00 in capital assets.

The Village's governmental activities paid \$15,096.56 of principal on the contracts payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is uncertain at this time and represents a significant portion of our income. We continue to grow in taxable values with a growing demand for municipal services.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, and investors with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenue it receives. If you have any questions concerning this report, please contact the Village Clerk or the Village Treasurer at 189 S. Cass St., P.O. Box 256, Morley, Michigan 49336 or by calling 231-856-4582 between 9:00 AM and 12:00 PM on Monday and/or Wednesday.

VILLAGE OF MORLEY
Mecosta County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	170 570 21
Due from State of Michigan	<u>14 954 73</u>
Total Current Assets	<u>185 524 94</u>
NONCURRENT ASSETS:	
Capital Assets	263 751 00
Less: Accumulated Depreciation	<u>(127 097 86)</u>
Net Capital assets	<u>136 653 14</u>
TOTAL ASSETS	<u>322 178 08</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accrued vacation and sick pay	<u>127 50</u>
Total Current Liabilities	<u>127 50</u>
NONCURRENT LIABILITIES:	
Contracts payable	<u>25 311 72</u>
Total Noncurrent Liabilities	<u>25 311 72</u>
Total Liabilities	<u>25 439 22</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	111 341 42
Unrestricted	<u>185 397 44</u>
Total Net Assets	<u>296 738 86</u>
TOTAL LIABILITIES AND NET ASSETS	<u>322 178 08</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MORLEY
Mecosta County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	
FUNCTIONS/PROGRAMS		
Governmental Activities:		
Legislative	6 487 11	(6 487 11)
General government	25 230 21	(25 230 21)
Public safety	31 767 35	(31 767 35)
Public works	89 729 80	(60 406 53)
Recreation and culture	12 153 58	(12 153 58)
Other functions	29 354 13	(29 354 13)
Interest on long-term debt	679 24	(679 24)
Total Governmental Activities	195 401 42	(166 078 15)
General Revenues:		
Property taxes		66 859 28
State revenue sharing		102 843 62
Interest		1 195 67
Miscellaneous		3 302 63
Total General Revenues		174 201 20
Change in net assets		8 123 05
Net assets, beginning of year		288 615 81
Net Assets, End of Year		296 738 86

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MORLEY
Mecosta County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital</u>
<u>Assets</u>				
Cash in bank	52 340 56	52 893 99	50 672 62	13 984 07
Due from State of Michigan	<u>6 512 00</u>	<u>5 330 58</u>	<u>3 112 15</u>	<u>-</u>
Total Assets	<u>58 852 56</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>13 984 07</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accrued vacation and sick pay	<u>127 50</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>127 50</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	<u>58 725 06</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>13 984 07</u>
Total fund balances	<u>58 725 06</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>13 984 07</u>
Total Liabilities and Fund Balances	<u>58 852 56</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>13 984 07</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
678 97	170 570 21
-	14 954 73
<u>678 97</u>	<u>185 524 94</u>

-	127 50
-	127 50

<u>678 97</u>	<u>185 397 44</u>
<u>678 97</u>	<u>185 397 44</u>
<u>678 97</u>	<u>185 524 94</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS

185 397 44

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost
Accumulated depreciation

263 751 00
(127 097 86)

Long-term debt liabilities are not due and payable in the current period and
therefore are not reported in the governmental funds:

Contracts payable

(25 311 72)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

296 738 86

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MORLEY
Mecosta County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital</u>
Revenues:				
Property taxes	66 859 28	-	-	-
State revenue sharing	49 668 00	31 540 24	18 503 36	-
Charges for services	-	-	-	29 323 27
Interest	655 22	346 70	103 95	87 33
Miscellaneous	<u>3 302 63</u>	-	-	-
Total revenues	<u>120 485 13</u>	<u>31 886 94</u>	<u>18 607 31</u>	<u>29 410 60</u>
Expenditures:				
Legislative:				
Village Council	6 487 11	-	-	-
General government:				
Attorney	120 00	-	-	-
Clerk	10 599 50	-	-	-
Treasurer	5 977 05	-	-	-
Village hall and grounds	7 703 66	-	-	-
Public safety:				
Police protection	14 955 53	-	-	-
Fire protection	14 075 47	-	-	-
Public works:				
Department of Public works	25 975 37	-	-	11 543 18
Highways and streets	6 20	10 447 82	22 884 91	-
Street lights	8 987 31	-	-	-
Sidewalks	16 66	-	-	-
Recreation and culture:				
Parks and recreation	10 650 25	-	-	-
Other functions:				
Insurance	25 747 13	-	-	-
Payroll taxes	3 607 00	-	-	-
Capital outlay	25 100 00	-	-	-
Debt service	<u>1 645 08</u>	-	-	<u>14 130 72</u>
Total expenditures	<u>161 653 32</u>	<u>10 447 82</u>	<u>22 884 91</u>	<u>25 673 90</u>
Excess (deficiency) of revenues over expenditures	<u>(41 168 19)</u>	<u>21 439 12</u>	<u>(4 277 60)</u>	<u>3 736 70</u>
Other financing sources (uses):				
Loan proceeds	25 100 00	-	-	-
Operating transfers in	1 744 08	-	7 316 11	-
Operating transfers out	-	(7 316 11)	-	(744 08)
Total other financing sources (uses)	<u>26 844 08</u>	<u>(7 316 11)</u>	<u>7 316 11</u>	<u>(744 08)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(14 324 11)	14 123 01	3 038 51	2 992 62
Fund balances, April 1	<u>73 049 17</u>	<u>44 101 56</u>	<u>50 746 26</u>	<u>10 991 45</u>
Fund Balances, March 31	<u><u>58 725 06</u></u>	<u><u>58 224 57</u></u>	<u><u>53 784 77</u></u>	<u><u>13 984 07</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	66 859 28
3 132 02	102 843 62
-	29 323 27
2 47	1 195 67
-	<u>3 302 63</u>
<u>3 134 49</u>	<u>203 524 47</u>
-	6 487 11
-	120 00
-	10 599 50
-	5 977 05
-	7 703 66
608 02	15 563 55
-	14 075 47
-	37 518 55
942 95	34 281 88
-	8 987 31
-	16 66
-	10 650 25
-	25 747 13
-	3 607 00
-	25 100 00
-	<u>15 775 80</u>
<u>1 550 97</u>	<u>222 210 92</u>
<u>1 583 52</u>	<u>(18 686 45)</u>
-	25 100 00
-	9 060 19
<u>(1 000 00)</u>	<u>(9 060 19)</u>
<u>(1 000 00)</u>	<u>25 100 00</u>
583 52	6 413 55
<u>95 45</u>	<u>178 983 89</u>
<u>678 97</u>	<u>185 397 44</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 6 413 55

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (13 387 06)
Capital Outlay 25 100 00

Receipt of debt principal in the form of loan proceeds is a financing source in the
governmental funds, the receipt does not have an effect in the statement of
activities but does increase the debt balance in the statement of net assets

Principal receipts on long-term debt (25 100 00)

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt 15 096 56

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 8 123 05

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Morley, Mecosta County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Village of Morley. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Joint Venture

The Village of Morley and the Townships of Aetna and Deerfield have formed the Morley Area Fire Department Inc. The Fire Department operates as a separate entity. For the year ended March 31, 2005, the Village paid \$7,600.00 to the Fire Department. Financial statements of the Fire Department may be obtained from them at 201 South Cass Street in Morley, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of July 1. These taxes are due on September 15 with the final collection date of September 30 before they are added to the county tax rolls. The Village 2004 tax roll millage rate was 10.3817 mills, and the taxable value was \$6,535,333.00.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	25-50 years
Equipment	10-25 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Village's governmental funds is recorded as an expenditure and liability in the respective funds. Employees may accumulate vacation and sick leave and are paid for half of unused sick leave upon termination of employment.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$136,653.14.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated three banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>170,570.21</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	171 253 91
Uninsured and Uncollateralized	-
Total Deposits	<u>171 253 91</u>

The Village of Morley did not have any investments as of March 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	1 500 00	-	-	1 500 00
Buildings	84 300 00	-	-	84 300 00
Equipment	<u>152 851 00</u>	<u>25 100 00</u>	-	<u>177 951 00</u>
Total	238 651 00	25 100 00	-	263 751 00
Accumulated Depreciation	<u>(113 710 80)</u>	<u>(13 387 06)</u>	-	<u>(127 097 86)</u>
Net Governmental Capital Assets	<u>124 940 20</u>	<u>11 712 94</u>	<u>-</u>	<u>136 653 14</u>

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/05</u>
Contract payable – fire truck	-	25 100 00	965 84	24 134 16
Contract payable – truck	<u>15 308 28</u>	-	<u>14 130 72</u>	<u>1 177 56</u>
Total	<u>15 308 28</u>	<u>25 100 00</u>	<u>15 096 56</u>	<u>25 311 72</u>

Note 6 – Contract Payable – Fire Truck

On September 23, 2004, the Village purchased a fire truck for \$25,100.00. The truck is being paid for in fifty-nine monthly payments of \$274.18, with interest at 5.5% per annum and a balloon of \$14,498.02 on September 22, 2009. As of March 31, 2005, the principal balance outstanding on the fire truck was \$24,134.16.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 7 – Contract Payable – Truck

On April 24, 2002, the Village purchased a 2002 Ford F350 truck for \$42,392.16. The truck is being paid for in thirty-six monthly payments of \$1,177.56, with no interest. As of March 31, 2005, the principal balance outstanding on the truck was \$1,177.56.

Note 8 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 9 – Pension Plan

The Village does not have a pension plan.

Note 10 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Building Permits

The Village of Morley does not issue building permits. Building permits are issued by the County of Mecosta.

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	56 000 00	56 000 00	66 859 28	10 859 28
State revenue sharing	42 000 00	42 000 00	49 668 00	7 668 00
Interest	1 000 00	1 000 00	655 22	(344 78)
Miscellaneous	3 120 00	3 120 00	3 302 63	182 63
Total revenues	<u>102 120 00</u>	<u>102 120 00</u>	<u>120 485 13</u>	<u>18 365 13</u>
Expenditures:				
Legislative:				
Village Council	6 000 00	6 500 00	6 487 11	(12 89)
General government:				
Attorney	500 00	1 060 00	120 00	(940 00)
Clerk	11 000 00	10 600 00	10 599 50	(50)
Treasurer	6 500 00	6 000 00	5 977 05	(22 95)
Village hall and grounds	10 000 00	7 800 00	7 703 66	(96 34)
Public safety:				
Police protection	15 000 00	15 000 00	14 955 53	(44 47)
Fire protection	10 000 00	14 085 87	14 075 47	(10 40)
Public works:				
Department of Public Works	27 000 00	27 260 80	25 975 37	(1 285 43)
Highways and streets	-	10 00	6 20	(3 80)
Street lighting	10 000 00	9 029 20	8 987 31	(41 89)
Sidewalks	300 00	300 00	16 66	(283 34)
Recreation and culture:				
Parks and recreation	13 000 00	11 000 00	10 650 25	(349 75)
Other functions:				
Insurance	21 500 00	26 240 00	25 747 13	(492 87)
Payroll taxes	4 000 00	4 000 00	3 607 00	(393 00)
Capital outlay	-	25 100 00	25 100 00	-
Debt service	-	1 650 00	1 645 08	(4 92)
Total expenditures	<u>134 800 00</u>	<u>165 635 87</u>	<u>161 653 32</u>	<u>(3 982 55)</u>
Excess (deficiency) of revenues over expenditures	<u>(32 680 00)</u>	<u>(63 515 87)</u>	<u>(41 168 19)</u>	<u>22 347 68</u>
Other financing sources (uses):				
Loan proceeds	-	25 100 00	25 100 00	-
Operating transfers in	-	-	1 744 08	1 744 08
Total other financing sources (uses)	<u>-</u>	<u>25 100 00</u>	<u>26 844 08</u>	<u>1 744 08</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(32 680 00)</u>	<u>(38 415 87)</u>	<u>(14 324 11)</u>	<u>24 091 76</u>
Fund balance, April 1	<u>63 709 73</u>	<u>57 973 86</u>	<u>73 049 17</u>	<u>15 075 31</u>
Fund Balance, March 31	<u>31 029 73</u>	<u>19 557 99</u>	<u>58 725 06</u>	<u>39 167 07</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – CAPITAL FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Charges for services	26 000 00	26 000 00	29 323 27	3 323 27
Interest	<u>380 00</u>	<u>380 00</u>	<u>87 33</u>	<u>(292 67)</u>
Total revenues	<u>26 380 00</u>	<u>26 380 00</u>	<u>29 410 60</u>	<u>3 030 60</u>
Expenditures:				
Public works:				
Department of Public Works	15 050 00	15 050 00	11 543 18	(3 506 82)
Debt service	<u>16 000 00</u>	<u>16 000 00</u>	<u>14 130 72</u>	<u>(1 869 28)</u>
Total expenditures	<u>31 050 00</u>	<u>31 050 00</u>	<u>25 673 90</u>	<u>(5 376 10)</u>
Excess (deficiency) of revenues over expenditures	<u>(4 670 00)</u>	<u>(4 670 00)</u>	<u>3 736 70</u>	<u>8 406 70</u>
Other financing sources (uses):				
Operating transfers out	-	-	(744 08)	(744 08)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(744 08)</u>	<u>(744 08)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(4 670 00)</u>	<u>(4 670 00)</u>	<u>2 992 62</u>	<u>7 662 62</u>
Fund balance, April 1	<u>11 019 50</u>	<u>11 019 50</u>	<u>10 991 45</u>	<u>(28 05)</u>
Fund Balance, March 31	<u>6 349 50</u>	<u>6 349 50</u>	<u>13 984 07</u>	<u>7 634 57</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	27 500 00	27 500 00	31 540 24	4 040 24
Interest	325 00	325 00	346 70	21 70
Total revenues	<u>27 825 00</u>	<u>27 825 00</u>	<u>31 886 94</u>	<u>4 061 94</u>
Expenditures:				
Public works:				
Highways and streets	14 100 00	15 383 89	10 447 82	(4 936 07)
Total expenditures	<u>14 100 00</u>	<u>15 383 89</u>	<u>10 447 82</u>	<u>(4 936 07)</u>
Excess (deficiency) of revenues over expenditures	<u>13 725 00</u>	<u>12 441 11</u>	<u>21 439 12</u>	<u>8 998 01</u>
Other financing sources (uses):				
Operating transfers out	(6 600 00)	(7 316 11)	(7 316 11)	-
Total other financing sources (uses)	<u>(6 600 00)</u>	<u>(7 316 11)</u>	<u>(7 316 11)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	7 125 00	5 125 00	14 123 01	8 998 01
Fund balance, April 1	<u>38 327 10</u>	<u>36 327 10</u>	<u>44 101 56</u>	<u>7 774 46</u>
Fund Balance, March 31	<u>45 452 10</u>	<u>41 452 10</u>	<u>58 224 57</u>	<u>16 772 47</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	15 980 00	15 980 00	18 503 36	2 523 36
Interest	<u>500 00</u>	<u>500 00</u>	<u>103 95</u>	<u>(396 05)</u>
Total revenues	<u>16 480 00</u>	<u>16 480 00</u>	<u>18 607 31</u>	<u>2 127 31</u>
Expenditures:				
Public works:				
Highways and streets	<u>20 700 00</u>	<u>23 700 00</u>	<u>22 884 91</u>	<u>(815 09)</u>
Total expenditures	<u>20 700 00</u>	<u>23 700 00</u>	<u>22 884 91</u>	<u>(815 09)</u>
Excess (deficiency) of revenues over expenditures	<u>(4 220 00)</u>	<u>(7 220 00)</u>	<u>(4 277 60)</u>	<u>2 942 40</u>
Other financing sources (uses):				
Operating transfers in	<u>6 600 00</u>	<u>7 316 11</u>	<u>7 316 11</u>	<u>-</u>
Total other financing sources (uses)	<u>6 600 00</u>	<u>7 316 11</u>	<u>7 316 11</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2 380 00	96 11	3 038 51	2 942 40
Fund balance, April 1	<u>47 152 77</u>	<u>44 152 77</u>	<u>50 746 26</u>	<u>6 593 49</u>
Fund Balance, March 31	<u><u>49 532 77</u></u>	<u><u>44 248 88</u></u>	<u><u>53 784 77</u></u>	<u><u>9 535 89</u></u>

VILLAGE OF MORLEY
Mecosta County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2005

Village Council:	
Wages	4 300 00
Dues	911 00
Miscellaneous	<u>1 276 11</u>
	<u>6 487 11</u>
Attorney:	
Contracted services	<u>120 00</u>
Clerk:	
Wages	10 250 24
Office supplies	<u>349 26</u>
	<u>10 599 50</u>
Treasurer:	
Wages	5 393 37
Supplies	<u>583 68</u>
	<u>5 977 05</u>
Village hall and grounds:	
Equipment rental	1 650 76
Contracted services	664 92
Supplies	1 203 48
Utilities	<u>4 184 50</u>
	<u>7 703 66</u>
Police protection:	
Wages	9 154 25
Supplies	506 08
Repairs and maintenance	<u>5 295 20</u>
	<u>14 955 53</u>
Fire protection:	
Contracted services	7 600 00
Repairs and maintenance	354 99
Supplies	5 779 41
Equipment rental	<u>341 07</u>
	<u>14 075 47</u>
Department of Public Works:	
Wages	16 177 08
Supplies	1 009 56
Utilities	2 782 81
Miscellaneous	3 757 69
Deye dam	<u>2 248 23</u>
	<u>25 975 37</u>
Highways and streets	<u>6 20</u>
Street lighting	<u>8 987 31</u>
Sidewalks:	
Miscellaneous	<u>16 66</u>
Parks and recreation:	
Contracted services	8 398 32
Utilities	254 55
Repairs and maintenance	128 98
Rentals	1 539 27
Miscellaneous	<u>329 13</u>
	<u>10 650 25</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2005

Insurance	<u>25 747 13</u>
Payroll taxes	<u>3 607 00</u>
Capital outlay	<u>25 100 00</u>
Debt service	<u>1 645 08</u>
Total Expenditures	<u><u>161 653 32</u></u>

VILLAGE OF MORLEY
Mecosta County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2005

	<u>Capital</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Liquor Law Enforcement</u>
<u>Assets</u>				
Cash in bank	13 984 07	52 893 99	50 672 62	-
Due from State of Michigan	-	5 330 58	3 112 15	-
Total Assets	<u>13 984 07</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>-</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	-	-	-	-
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	13 984 07	58 224 57	53 784 77	-
Total fund balances	<u>13 984 07</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>13 984 07</u>	<u>58 224 57</u>	<u>53 784 77</u>	<u>-</u>

<u>Metro</u>	<u>Total</u>
678 97	118 229 65
<u>-</u>	<u>8 442 73</u>
<u>678 97</u>	<u>126 672 38</u>
<u>-</u>	<u>-</u>
<u>678 97</u>	<u>126 672 38</u>
<u>678 97</u>	<u>126 672 38</u>
<u>678 97</u>	<u>126 672 38</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2005

	<u>Capital</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Liquor Law Enforcement</u>
Revenues:				
State revenue sharing	-	31 540 24	18 503 36	605 55
Charges for services	29 323 27	-	-	-
Interest	<u>87 33</u>	<u>346 70</u>	<u>103 95</u>	<u>2 47</u>
Total revenues	<u>29 410 60</u>	<u>31 886 94</u>	<u>18 607 31</u>	<u>608 02</u>
Expenditures:				
Police protection:				
Wages	-	-	-	608 02
Department of Public Works:				
Wages	5 358 78	-	-	-
Supplies	6 049 40	-	-	-
Repairs and maintenance	135 00	-	-	-
Highways and streets:				
Wages	-	3 407 55	7 863 69	-
Supplies	-	1 915 56	3 971 00	-
Equipment rental	-	5 124 71	11 050 22	-
Debt service	<u>14 130 72</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>25 673 90</u>	<u>10 447 82</u>	<u>22 884 91</u>	<u>608 02</u>
Excess (deficiency) of revenues over expenditures	<u>3 736 70</u>	<u>21 439 12</u>	<u>(4 277 60)</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in	-	-	7 316 11	-
Operating transfers out	<u>(744 08)</u>	<u>(7 316 11)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(744 08)</u>	<u>(7 316 11)</u>	<u>7 316 11</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2 992 62	14 123 01	3 038 51	-
Fund balances, April 1	<u>10 991 45</u>	<u>44 101 56</u>	<u>50 746 26</u>	<u>-</u>
Fund Balances, March 31	<u><u>13 984 07</u></u>	<u><u>58 224 57</u></u>	<u><u>53 784 77</u></u>	<u><u>-</u></u>

<u>Metro</u>	<u>Total</u>
2 526 47	53 175 62
-	29 323 27
-	540 45
<u>2 526 47</u>	<u>83 039 34</u>
-	608 02
-	5 358 78
-	6 049 40
-	135 00
301 41	11 572 65
11 92	5 898 48
629 62	16 804 55
-	14 130 72
<u>942 95</u>	<u>60 557 60</u>
<u>1 583 52</u>	<u>22 481 74</u>
-	7 316 11
<u>(1 000 00)</u>	<u>(9 060 19)</u>
<u>(1 000 00)</u>	<u>(1 744 08)</u>
583 52	20 737 66
<u>95 45</u>	<u>105 934 72</u>
<u>678 97</u>	<u>126 672 38</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 11, 2005

To the Village Council
Village of Morley
Mecosta County, Michigan

We have audited the financial statements of the Village of Morley for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Morley in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Morley
Mecosta County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Village of Morley began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated March 31, 2005.

To the Village Council
Village of Morley
Mecosta County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants